

Service Date April 8, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application by) UTILITY DIVISION
The MOUNTAIN STATES TELEPHONE)
and TELEGRAPH COMPANY (MOUNTAIN)
BELL) for Authority to Increase Rates) DOCKET NO. 80.12.100
and for Approval of Tariff Changes for)
Telecommunications Service.) ORDER NO. 4786

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INTERIM RATE ORDER

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FINDINGS OF FACT

1. On December 5, 1980 Mountain Bell filed its Application for authority to increase rates and for approval of tariff changes in the amount of \$30,586,000.

2. Concurrently with the filing of the Application, Mountain Bell filed its Verified Application for Interim Rate Increase pursuant to 69-3-304, MCA, and the Commission rule ARM 38.5.501 et seq., which address the granting of interim relief by the Commission. The full amount of \$30,586,000 was requested "to become effective prior to the contested hearing in this case and pending the final order and decision of the Montana Public Service Commission.

3. The full request of \$30,586,000 includes adjustments not accepted in total or in part in previous Commission orders such as: License Contract Expenses and Income Tax Normalization. Other adjustments included for the first time include: Station connection expenses and expenses associated equal life group depreciation. Rate of return applied for is also significantly above that granted in Order No. 4585a, Docket No. 6652 (the company's most recent general rate proceeding.)

4. In view of these factors, the Commission found that it could not approve rate relief in the amount of \$30,586,000. On January 26, 1981 it unanimously rejected Mountain Bell's request.

5. On February 5, 1981 Mountain Bell filed its Motion for Reconsideration urging the Commission to reconsider its ruling in light of the interim rules and guidelines.

6. It should be noted that the interim rules are discretionary and the Commission may, at any time, waive any or all of them. However, on February 23, 1981 the Commission voted to reconsider its action.

7. Interim rules and guidelines call for "a clear showing that the petitioning utility is suffering an obvious income deficiency. " The Commission finds that reference to adjustments and rate of return approved in the most recent Mountain Bell general rate order provide the most appropriate means to measure financial performance. Applying these parameters to current test year booked income and rate base sensibly annualized and corrected for accounting errors not only provides a financial

picture consistent with the most recent Commission order (thus providing a basis for accurate comparability), but also prejudging issues in the current case is avoided.

8. A schedule prepared consistent with the above criteria shows that Mountain Bell intrastate operations for the test period produced an overall return of 8.85 percent (Schedule 1). This compares with 9.7 percent approved in Order No. 4585a.

SCHEDULE 1

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Ex. 4-A

Booked Net Income, Test Period	11,677	p.8
True Up Adjustments*	59	pp. 22,24
Annualization Adjustments:		
Rent Expense	(26)	p. 23
Independent Co. Settlements Expense	(136)	p. 32
Social Security Expense	(8)	p. 37
Wage & Salary Expense	(242)	p. 35
Directory Income	82	p. 33
Rate Decision Income	<u>2,903</u>	p. 31
Subtotal	14,309	
Adjustments made in Order No. 4585a:		
Advertising Disallowance	161	
License Contract Limitation	780	
Interstate FX*	15	
Interest Adjustment	<u>435</u>	
Total Adjusted Income	15,700	
Rate Base	177,493	
Rate of Return	8.85%	
Order No. 4585a Return	9.7 %	
Required Earnings	17,217	
Earnings Shortfall	1,517	

Revenue Shortfall (2.024 Multiplier)	<u>\$3,070</u>
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* Rate Base Adjusted for These Items

9. The Commission finds that this difference constitutes an income deficiency in this instance, that deferred rate relief until a final order can be issued may adversely affect the utilities financial condition, and further that under its current rate-making standards, the utility may be entitled to rate relief at the time a final order is issued in the proceedings.

10. The Commission finds that Mountain Bell's rate of return has eroded and accordingly, finds Mountain Bell entitled to interim rate relief of \$3,070,000 on an annual basis. (See Schedule I, Finding of Fact No. 8.)

11. Based upon the Commission's findings in Docket No. 6714 (Order Nos. 4706 and 4706a) the Commission finds here that interim relief determined appropriate in this order should be generated entirely from vertical terminal equipment offerings.

12. In Docket No. 6714, Order No. 4706 the Commission came to recognize that numerous vertical terminal equipment offerings were being severely under-priced. That is, the rates being charged for those services were less than the cost of providing those services. This results in subsidizing of vertical terminal equipment offerings by other telephone services and other ratepayers. To remedy this inequity the Commission developed an appropriate fully distributed cost methodology in order to correctly identify the full costs of providing vertical terminal equipment services and thereby assure that future rates for those services cover their costs. In Order No. 4706, the Commission found that vertical terminal equipment

offerings should be priced at or above their fully distributed cost as developed in Docket No . 6714.

13. However, in Order No. 4706a, the Commission deferred the re-pricing of vertical terminal equipment up to fully distributed cost levels until after those cost levels were updated, in conjunction with filing of the Company's next general rate case (Docket No. 80.12.100). Mountain Bell's filing in this case indicates that re-pricing of vertical terminal equipment pursuant to the findings in Docket No. 6714 would result in increased annual revenues in the amount of \$8,333,000. Therefore, it is clear that interim relief found appropriate in this order can be generated by re-pricing vertical terminal equipment towards their fully distributed cost levels.

14. The Commission finds that it is appropriate to generate increased revenues from the vertical terminal equipment area prior to looking to other areas because of the cross-subsidization recognized earlier in Docket No. 6714.

15. Interim relief can most equitably be generated by re-pricing vertical terminal equipment such that each offering has an equal percentage of the margin between its current rate and its fully distributed cost level eliminated. Because of the separate findings made in Order No. 4706 concerning secretarial bureau services and the active intervention of telephone answering services in this docket, the Commission finds that interim relief should not be generated from secretarial bureau services.

16. The interim relief found appropriate in this order is subject to rebate should the Commission find a lesser amount of relief to be justified in its final order. Any such rebate shall include interest applied at 10 percent per annum.

CONCLUSIONS OF LAW

1. Applicant, Mountain States Telephone and Telegraph Company is a corporation providing telephone and other communications services within the state of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana Operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides, in part, "The Commission may, in its discretion, temporarily approve increase pending a hearing or final decision "

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Mountain Bell. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this Order are found to be unjustified in the final order in this Docket.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Mountain Bell is hereby granted interim rate relief in the amount of \$3,070,000 on an annual basis.

2. Mountain Bell is authorized to file tariffs re-pricing vertical terminal equipment offerings in the manner described in the preceding Findings of Fact and to the degree necessary to generate \$3,070,000 in additional annual revenues.

3. Interim revenues granted herein are subject to rebate should the final order in this docket determine that a lesser

increase is warranted. Such a rebate would include interest at 10 percent per annum.

DONE IN OPEN SESSION THIS 6th day of April, 1981 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

JOHN B. DRISCOLL, Commissioner
(Voted To Dissent)

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp Sec. 2-4-702, MCA;

and Commission Rules of Practice and Procedure, esp.
38.2.4806, ARM.